IN THE UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF VIRGINIA
Norfolk Division

FILED
JUN 12 2002
CLERK, U.S. DISTRICT COURT

MICROSTRATEGY, INC.,
Plaintiff,

v. Civil Action No. 2:01cv826

BUSINESS OBJECTS, S.A., et al.,
Defendants.

ORDER AND OPINION

On June 3, 2002, the court heard oral argument with respect to Business Objects, S.A. and Business Objects Americas, Inc.'s ("defendants") Motion to Stay Proceedings Regarding United States Patent Numbers 6,260,050 and 6,279,033 Until the United States Patent and Trademark Office has Completed its Reexamination of those Patents ("Motion to Stay"). Microstrategy, Inc. ("plaintiff") objects to the stay. While motions to stay patent cases based on reexamination by the Patent and Trademark Office ("PTO") have been denied by this court on several occasions, based on the facts, the arguments of counsel at the hearing, and for the reasons set forth below, the court GRANTS the defendants' Motion to Stay.

I. Factual and Procedural Background

On October 30, 2001, the plaintiff filed this lawsuit against the defendants alleging infringement of two of its patents, United States Patent Numbers 6,260,050 ("the '050 patent") and 6,279,033 ("the '033 patent"), as well as other state law tort claims.[1] On January 25, 2002, the defendants filed a Request for Reexamination under 35 U.S.C. §§ 302-307 and 37 C.F.R. § 1.510

[1] These claims include violation of the Computer Fraud and Abuse Act, 18 U.S.C. § 1030; Uniform Trade Secrets Act, Va. Code § 59.1-336 *et seq.*; Tortious Interference with Microstrategy Agreements; and Conspiracy in Violation of Va. Code § 18.2-499 *et seq.* See Pl.'s Second Am. Compl. Dkt. 62.

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with the PTO for the '050 and '033 patents. These requests were based on the plaintiff's own public documents and prior art which it allegedly failed to disclose to the PTO during the prosecution of its patent applications. On March 27, 2002, the PTO issued an Order Granting the Request for Reexamination on the '050 patent. On April 5, 2002, the PTO issued an Order Granting the Request for Reexamination on the '033 patent. The instant motion was filed on April 15, 2002.

II. Analysis

A. Standard for Reexamination

"A reexamination proceeding is an administrative proceeding conducted by the PTO for the purpose of determining the validity of an existing patent." Softview Computer Prods. Corp. v. Haworth Inc., 56 U.S.P.Q.2d 1633, 1634 (S.D.N.Y. 2000) (citing 35 U.S.C. § 301, *et seq.*). "Any person at any time may file a request for reexamination by the Office of any claim of a patent on the basis of any prior art," 35 U.S.C. § 302, "consisting of patents or printed publications which that person believes to have a bearing on the patentability of any claim of a particular patent." 35 U.S.C. § 301. If the PTO examiner determines that there is a "substantial new question of patentability" based on the prior art, the request for reexamination will be granted. 35 U.S.C. § 304.

In this case, the PTO granted reexamination for both patents. The defendants point to the language of the order granting reexamination for the '033 patent as going "beyond merely finding a significant new question of patentability." Specifically, the PTO stated:

> Eight printed publications were presented as newly cited prior art references against the claims of the '033 patent under 35 U.S.C. 102(b) or 102(e) and/or 36 U.S.C. 103(a). *The eight references alone or in combination disclose each and every element of at least independent claims 1, 17, 27, and 30 of the '033 patent.* The eight newly cited prior art references raise substantial new questions of patentability with respect to the claims of the '033 patent that were not decided during the prosecution of the '033 patent. Reexamination therefore is appropriate in light of the new issues of patentability presented herein.

Def.'s Mot., Dkt. 42, Ex. 8, section I (emphasis added). However, "the grant by the examiner of a request for reexamination is not probative of unpatentability. The grant of a request for reexamination, although surely evidence that the criterion for reexamination has been met (i.e., that a 'substantial new question of patentability' has been raised, 35 U.S.C. § 303), does not establish a likelihood of patent invalidity." Hoechst Celanese Corp. v. BP Chemicals Ltd., 78 F.3d 1575, 1584 (Fed. Cir. 1996). Therefore, the court will not read any additional inferences into the grant of the request for reexamination, other than there is a substantial new question of patentability.

B. Staying the Case Pending Reexamination

"Courts have inherent power to manage their dockets and stay proceedings, including the authority to order a stay pending conclusion of a PTO reexamination." Ethicon, Inc. v. Quigg, 849 F.2d 1422, 1426-27 (Fed. Cir. 1988) (citing Landis v. North Am. Co., 299 U.S. 248, 254, 57 S. Ct. 163 (1936) and Gould v. Control Laser Corp., 705 F.2d 1340, 1342 (Fed. Cir. 1983)). Although "litigation and reexamination are distinct proceedings, with distinct parties, purposes, procedures, and outcomes," Id. at 1427, "[o]ne purpose of the reexamination procedure is to eliminate trial of [a patent claim validity] issue ... or to facilitate trial of that issue by providing the district court with the expert view of the PTO." Control Laser Corp., 705 F.2d at 1342. "There is a liberal policy in favor of granting motions to stay proceedings pending the outcome of reexamination proceedings." Whatley v. Nike Inc., 54 U.S.P.Q.2d 1124, 1125 (D. Ore. 2000) (quoting ASCI Corp. v. STD Entertainment USA, Inc., 844 F. Supp. 1378, 1381 (N.D. Cal. 1994)); see also Softview, 56 U.S.P.Q.2d at 1635 ("Courts have routinely stayed infringement actions pending the outcome of reexamination proceedings.").

The parties spend considerable time discussing the PTO's reexamination statistics. It appears, based on the statistics provided by both parties from the PTO, that of the 6,260 requests for reexamination since 1981, approximately 6,076, or 90%, have been granted. See Pl.'s Resp., Dkt. 50, Ex. A. However, this must be viewed in light of the fact that within the past 20 years, over 2,000,000 patents have been issued. Furthermore, of the 90% of patents that have been reexamined, 70% of them have had some claims amended or cancelled. Id. Since the PTO has agreed to reexamine these patents, the likelihood that there will be some changes to the claims is more probable than not. The defendant also argues that because the PTO examiners, who are experts in evaluating patents, felt that there was a "substantial new question of patentability" based on the prior art presented, this court should allow the PTO to complete its reexamination prior to continuing the litigation. However, if the court based its ruling solely on this argument, motions to stay proceedings pending reexamination would never be denied. Therefore, the court must turn to other factors in making its ruling.

C. Factors to Consider Before Staying a Case

The factors that a court should consider when determining to grant a stay include "(1) whether a stay would unduly prejudice or present a clear tactical disadvantage to the non-moving party; (2) whether a stay will simplify the issues in question and trial of the case; and (3) whether discovery is complete and whether a trial date has been set." Softview, 56 U.S.P.Q.2d at 1635-36 (quoting Xerox Corp. v. 3Com Corp., 69 F. Supp. 2d 404, 406-07 (W.D.N.Y. 1999) (citing Target Therapeutics, Inc. v. SciMed Life Sys., Inc., 1995 WL 20470 (N.D. Cal.1995); GPAC, Inc. v. DWW Enters., Inc., 144 F.R.D. 60, 66 (D.N.J.1992); United Sweetener USA, Inc. v. Nutrasweet Co., 766 F. Supp. 212, 217 (D. Del.1991)). The court will address each of these factors in turn.

1. Whether a Stay Would Unduly Prejudice or Present a Clear Tactical Disadvantage to the Non-moving Party?

With respect to the first factor, the plaintiff argues that it would suffer irreparable harm if this case were stayed pending the resolution of the reexamination process. The plaintiff contends that because patents have a limited life, the delay, which could last upwards of four years,[2] will allow the defendants to continue to infringe on its patents, causing it to suffer irreparable harm. However, the plaintiff has not moved for an injunction in this case, nor has it met its burden to show irreparable harm. The Federal Circuit has held that "[i]n matters involving patent rights, irreparable harm has been presumed when a clear showing has been made of patent validity and infringement." H.H. Robertson, Co. v. United Steel Deck, Inc., 820 F.2d 384, 390 (Fed. Cir. 1987), abrogated on other grounds, Markman v. Westview Instruments, Inc., 52 F.3d 967 (Fed. Cir. 1995). Such a showing has not been made in this case. Even if this court stays the proceedings here and the proceedings take four years to complete, the plaintiff will not suffer harm as any infringement by the defendant will be recoverable once a trial in this matter occurs. However, if the court denies a stay and PTO determines that the claims of the plaintiff's patents are invalid, the parties and the court will have wasted considerable time and money in conducting the trial. Moreover, if the PTO substantially amends the claims, the plaintiff would only be able to receive damages for infringement from the time of reissue of the patent after reexamination. See The Laitram Corp. v. NEC Corp., 163 F.3d 1342, 1346 (Fed. Cir. 1998) (citing Bloom Eng'g Co. v. North Am. Mfg. Co., 129 F.3d 1247,

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[2] This number is based on additional statistics cited by the plaintiff. Assuming the plaintiff's numbers are correct, the reexamination process will take an average of 21 months and the appeals to the Board of Patent Appeals and then the Federal Circuit could take an additional 2 to 3 years. However, it should be noted that the court is merely quoting the numbers cited by the plaintiff; it is not making a finding as to the validity of this time line.

1249-50 (Fed. Cir. 1997)). Therefore, it does not appear that the plaintiff will be unduly prejudiced or irreparably harmed.

In addition, the plaintiff argues that the defendants requested the reexamination in order to delay the case and "once again to bifurcate the related business tort claims and to avoid an adverse ruling." Pl.'s Resp., Dkt. 50. However, it does not appear that the defendants requested a reexamination in order to tactically disadvantage the plaintiff. The defendants requested the reexamination less than three months after the case was filed, and approximately one month after filing its answer. Cf. Whatley, 54 U.S.P.Q.2d at 1125-26 (denying motion to stay because the case had already been pending for two years at the time the defendant requested reexamination). Moreover, it appears that some of the prior art that the defendants have revealed to the PTO in their request for reexamination is from the plaintiff's own products and publications. If the PTO determines that this prior art should have been disclosed to the PTO during the prosecution of the patents, the plaintiff may be guilty of inequitable conduct. Such a finding by the PTO would have a significant effect on portions of the trial in this case, particularly with respect to attorneys' fees.

The prior rulings regarding bifurcation that the plaintiff relies upon similarly do not create a tactical disadvantage. It appears that this court allowed the plaintiff leave to amend its complaint after the plaintiff voluntarily dismissed its pending case in state court. The court is unaware of any other orders regarding bifurcation in this matter, and the defendants stated that they never filed a motion to bifurcate the trial. Therefore, the court is not being disingenuous to its prior rulings by granting a stay on the patent claims and allowing the non-patent tort claims to go forward.[3]

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[3] Based on this court's April 17, 2002 Order, the plaintiff has a private right of action under federal statute 18 U.S.C. § 1030(g). Order and Opinion, Dkt. 43. Therefore, this court has jurisdiction to hear these claims pursuant to 28 U.S.C. §§ 1331 and 1367.

While this court generally would not grant the requested stay based solely on a lack of prejudice or unfair tactics, the facts of this case are unusual in at least two ways. First, the defendants moved for the stay very early in the proceedings, almost immediately after filing its answer. Second, the request for reexamination was made and granted based on the plaintiff's own prior art, which it allegedly failed to disclose to the PTO. Cf. Whatley, 54 U.S.P.Q.2d at 1124 (stating, in opinion denying motion to stay, that the reexamination request was granted based on *foreign* prior art). Thus, based on these reasons, this factor weighs in favor of granting the stay.

2. Whether a Stay will Simplify the Issues in Question and Trial of the Case?

The plaintiff argues that even if this court grants the stay, the parties will be forced to go to trial in October on the business tort claims, and therefore, granting the stay will not simplify the case. However, the parties agree that the business tort claims are independent from the patent infringement claims in this case. As the defendants argued at the hearing, there is no witness overlap, no issue overlap, and little, if any, documentary overlap between the cases. As such, the result of the reexamination will have no effect on the resolution of these claims.

However, if the PTO determines, on reexamination of the patents at issue in this case, that all of the claims are invalid, then there will be no need for a separate trial on the infringement claims.[4] On the other hand, if the PTO invalidates or amends some of the claims, the issues in the case will be simplified. For example, if the PTO determines that something is prior art, the court will not require additional experts to testify to that issue. Therefore, this factor weighs in favor of granting the stay.

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[4] While it is true that the standards for patent validity are different in the PTO and the courts, a finding of invalidity by the PTO negates any further inquiry by the courts.

3. Whether Discovery is Complete and Whether a Trial Date has been set?

While there has been some discovery in this case, and a trial date has been set, there has not been significant activity in this litigation. First, there have been no depositions taken or even scheduled in this case. Second, there have been no dispositive motions filed with the court. Third, the court has not conducted a Markman hearing, nor has either party requested one. Thus, even though a trial date has been set, discovery is far from complete in this case.

The plaintiff argues that because expert reports have been exchanged and the trial date is only four months away, a stay is inappropriate in this case. However, trial dates in this district are set early in the proceedings, often before discovery has even begun. The court will not allow the plaintiff to use the efficiency of this district's docket as a reason to deny the stay; otherwise, courts in this district would never grant stays. The court must weigh the facts of each case on an individual basis, without letting the efficiency of the court affect its decisions. This case was filed in late October and has been pending for seven months; however, it had been pending for only three months at the time the reexamination was requested. Unlike other courts where cases linger for years before a trial date is set, this case is still in its early stages even though a trial date is a mere four months away. Therefore, given the lack of substantive discovery and motions in this case, this factor weighs in favor of granting the stay.

D. Additional Advantages to Staying the Case

In addition to the above three factors, some district courts have found the following advantages to result from granting a stay of proceedings pending completion of reexamination proceedings:

1. All prior art presented to the Court will have been first considered by the PTO, with its particular expertise.

2. Many discovery problems relating to prior art can be alleviated by the PTO examination.

3. In those cases resulting in effective invalidity of the patent, the suit will likely be dismissed.

4. The outcome of the reexamination may encourage a settlement without further use of the Court.

5. The record of the reexamination would likely be entered at trial, thereby reducing the complexity and length of the litigation.

6. Issues, defenses, and evidence will be more easily limited in pre-trial conferences after a reexamination.

7. The cost will likely be reduced for both the parties and the Court.

Softview, 56 U.S.P.Q.2d at 1635 (citing Emhart Indus. v. Sankyo Seiki Mfg., 3 U.S.P.Q.2d 1889, 1890 (N.D. Ill. 1987) and Fisher Controls Co. v. Control Components Inc., 443 F. Supp. 581, 582 (S.D. Iowa 1977)). When viewed in light of the current case, these advantages lend additional support for granting the stay.

III. Conclusion

In general, stays of patent cases pending reexamination by the PTO are not ordinarily granted by this court. However, based on the reasons fully articulated above, the defendants' Motion to Stay this case pending resolution of the reexamination of the plaintiff's patents is **GRANTED**. Trial on the non-patent claims will proceed according to the schedule previously set by this court.

The Clerk is **REQUESTED** to send a copy of this Order to counsel of record.

It is so **ORDERED**.

UNITED STATES DISTRICT JUDGE

Norfolk, Virginia
June 12, 2002